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their loans in anticipation of the smaller amount of purchasing power in the hands of consumers who must take the product, if it is sold. There is as large a mass of goods as formerly, but a contraction of the loan fund because of a narrowing of the market for the produce. The goods must be sold for less in terms of price than was formerly anticipated. Creditors suffer, the banks contract their loans, and the result is an overproduction. This means that there must be a readjustment of the price-level before the goods can be sold. In this readjustment creditors will probably suffer.

The author's theories of fiat money and of bimetallism are in accord with the quantity theory, which he seems to hold. His inferences may not be—in the present writer's opinion are not—correct in every case, and his logic is at times faulty; but no space can here be taken for a full discussion of these points. The author is, perhaps, rather too dogmatic in all of his theorizing. While this attitude does not greatly mar the descriptive portions of his work, it produces a rather unpleasant effect in the theoretical discussion. The book will undoubtedly find favor as a text, chiefly on account of its clear presentation of a wide range of facts.

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THE BREAKDOWN OF STATE RAILWAY BUILDING IN FRANCE¹

In 1878 the French government broke in part with its past policy of confining itself to subsidizing private enterprise in the building of railways, and itself undertook to build as well as to operate railways. At this time the bulk of the railways belonged to the so-called six companies. Each one of those companies had a practical monopoly of the territory which it occupied. The manner in which the territory of France was divided between the six companies is indicated by the names of the companies: the Mediterranean, the Orleans, the Western, the Eastern, the Southern, and the Northern.

In addition to the foregoing companies, there were numerous small

¹ The statistical data occurring in this article, can be found in R. v. Kaufmann, *Die Eisenbahnpolitik Frankreichs*. To guard against such charges as were brought against me by a writer in this *Journal* in March, 1906, I beg leave to state that this article was written without any reliance whatever on Mr. v. Kaufmann's book, either for statements of fact or for expressions of opinion.

companies, which built short branch lines for the purpose of connecting outlying districts with the main lines of the six companies. Contrary to expectation, those local lines had, in some instances, been united into small independent groups that were capable of being still further developed into rival systems of one or the other of the six companies. That was true especially in the territories served by the Northern Railway Company, and by the Orleans and the Western Companies. The Northern Railway Company absorbed the smaller system of branch lines lying in its territory; but when the Orleans Company prepared to execute a similar policy, there arose an agitation in favor of the state purchase of the lines of the small companies operating to the southwest of Paris. The Parliament, therefore, in June, 1878, authorized the state to purchase and to operate some 1,640 miles of railway lying in the territories of the Orleans and Western Companies.

At the same time, the minister of public works, M. de Freycinet, introduced into Parliament a bill authorizing the government to build in the aggregate 3,875 miles of railway. This mileage consisted of a large number of branch lines spread impartially over the whole of France. M. de Freycinet himself stated that he had given every possible consideration to the wishes of individual members of the Chamber of Deputies and of the Senate. In November, 1878, M. de Freycinet submitted a "revised" scheme, calling for 4,500 miles of line. To that scheme the committee of the Chamber of Deputies added 625 miles; and the Chamber of Deputies and the Senate added another 1,030 miles, making a grand total of 5,530 miles of railway to be built in the course of the next ten years, and to cost about \$354,000,000.

The proposed railways consisted of branch lines which the state would have to lease to the six companies, or would have to operate under very disadvantageous conditions as short branch lines which joined the main lines of the six companies—excepting, of course, the comparatively small number of the proposed lines that could be united to the state's railway system lying in the territory of the Orleans and Western Companies. The question whether the state should lease the proposed lines, or should itself operate them, was left open. The people were united on the question that the state should build railways, knowing that the state would build them more recklessly than would companies, even though the latter were substantially subsidized by the state. On the question whether the state

should manage the railways or should lease them, the people were divided. Finally, on the question of the prospects of the proposed lines, the few people who concerned themselves at all with that question were agreed that for some years to come, few, if any, of the lines could be expected to earn even operating expenses; and that for many years to come none of the lines could be expected to earn the interest on the money to be borrowed for the building of them.

Partly for the purpose of meeting what were esteemed to be the legitimate demands of trade and transportation, partly for the purpose of "logrolling" through Parliament the railway bill, M. de Freycinet accompanied his proposal to build 3,875 miles of railway with the proposal to expend \$150,000,000 on canals and river improvements, and \$50,000,000 on harbor improvements. In the course of the logrolling that raised the railway mileage to be built from 3,875 miles to 5,530 miles, the proposed expenditure on rivers, canals, and harbors was increased from \$200,000,000 to \$300,000,000. M. de Freycinet's plans embraced some other schemes which it is not necessary to enumerate. Suffice it to say that the bill introduced in June, 1878, had provided for an aggregate expenditure of \$840,000,000; and that the practice of logrolling ultimately raised the proposed aggregate expenditure to \$1,200,000,000. Public works calling for that expenditure were authorized by the act of July 17, 1879.

M. de Freycinet, in June, 1878, had looked forward to an average annual expenditure of \$84,000,000; in July, 1879, he had looked forward to an average annual expenditure of \$120,000,000. By February, 1883—that is, in the period of three years and eight months—the government had spent upon railways and waterways some \$835,000,000. For that purpose it had issued \$835,000,000 worth of bonds, calling for \$25,000,000 a year in interest. That sum for interest, as well as a part of the operating expenses of the public works constructed, fell upon the taxpayers, the public works not paying even operating expenses.

The reckless expenditure of the state at the rate of over \$200,000,000 a year, the war in Tonquin, and the after-effects of the Paris stock-exchange crisis of 1882 impaired the public credit to such an extent that the government was forced to give up the attempt to complete the de Freycinet scheme of 1879. The government was obliged to ask the six companies to take off its hands the branch lines which it had built in their territories, with no regard to their prospective earning power, and in accord solely with the practice known as log-

rolling. Those branch lines, for the most part, promised not to earn even operating expenses. Upon terms which were destined, for many years to come, to throw upon the taxpayers enormous annual burdens, the six companies agreed to take over from the state, and to build, 6,130 miles of line embraced in the de Freycinet scheme of 1879, as well as 1,000 miles of line authorized to be built subsequently to 1879.

The state was so handicapped in bargaining with the six companies that it was unable even to safeguard its interests as represented by the state system of railways lying in the territory of the Orleans and Western Railway Companies. By the bargain made with the Orleans Company in 1883, the state system was reduced from 1,640 miles to 1,452 miles; and it was left without access to Paris; it was left a mere feeder to the Orleans and Western systems, to which it delivers about two-thirds of the freight which it collects.

The French government in 1878 undertook to build up in the territory of the Orleans and Western Railway Companies a state system of railways that should become sufficiently powerful to enable the government to coerce the Orleans and Western systems to adopt such policies as to freight rates as the government might choose to espouse. In addition, the government undertook to satisfy the popular demand for additional railways in territories that had been so well supplied by the six companies, that there were few, if any, chances to build additional lines that would become profitable feeders to the lines of the six companies. It is obvious that the task undertaken by the government in 1878 and 1879 called for great firmness in keeping within reasonable limits the number of lines to be built, and for great skill in judging the capacity of the investment market to absorb securities issued against unpromising railway ventures. As a matter of fact, the government showed nothing but weakness in administration, as well as utter failure to adjust its applications to the money market to that market's power to absorb new securities. The Chamber of Deputies took the conduct of affairs out of the hands of the administration. In doing so, it adjusted its conduct solely on the principles of the practice of logrolling. Each deputy sought to grab for his constituents all that he could grab, and threw the responsibility for his actions upon his constituents. The whole episode affords a striking and instructive illustration of "the visible helplessness of governments," to use the illuminating phrase of one of the most discerning of statemen, the late Marquis of Salisbury.